

~~SECRET~~

#### EAST - WEST TRADE IN EMBARGOED COMMODITIES

Shipments of embargoed commodities are perhaps the most challenging and unexplored segment of east-west trade. Since there is international agreement that these commodities shall not be shipped to the Sino-Soviet bloc, their movements typically are not recorded statistically. Consequently, evidence of their shipment must be derived, in the main, from intelligence sources. A further obstacle to effective appraisal of these movements of strategic commodities is the frequency with which the list of embargoed items has been revised and the varying scope of its application. For example: the 1954 list revision resulted in a much shorter list of items embargoed to the Soviet bloc, than to Communist China, with the direct result that large quantities of items permitted to be shipped to Soviet bloc ports were transhipped in contravention of the China embargo list and without appropriate records of destination being reflected in the official statistics in the countries of export.

~~SECRET~~

~~SECRET~~

### Composition

The composition of east-west trade in embargoed commodities obviously changes with the changing needs of the Sino-Soviet bloc and with variations in the level and enforcement of security trade controls. It also reflects the differing stages of economic development in the two major areas of the Communist world.

The principal commodities appearing in this trade with the Soviet bloc (excluding China) are:

Copper	Mercury
Industrial Equipment	Bearings
Molybdenum & Molybdenum compounds	Auto & Machine Parts
Cobalt	Electronic materials
Nickel	

Bloc interest has also been shown in germanium, radium, thorium nitrate and like materials. There are also strong indications that industrial diamonds and radio grade quartz are of major importance in this trade, but the detection of such imports is extremely difficult.

The principal items appearing in trade with Communist China are the following:

Iron & Steel	Surveying Instruments
Chemicals	Petroleum Products
Industrial Equipment	Transportation Equipment
Precision Instruments	

A large proportion of this trade has been in iron and steel and chemicals but there are recent indications that Communist Chinese wants are changing toward more advanced types of industrial equipment.

~~SECRET~~

~~SECRET~~

Volume

From the analysis of individual transactions it has been estimated that 100,000 tons of embargoed copper, valued at 75 million dollars, moved to the Soviet bloc in 1953 and that 80,000 tons, valued at 68 million dollars, moved in 1954. The 1953 tonnage included bare copper wire for the entire year while the 1954 figure did not include some 40,000 tons which were shipped subsequent to the removal of bare copper wire from the embargo list in August of that year. In addition, the value figures reflect an increase in price of about \$100 per ton.

Although comparable estimates have not been made for other commodities certain estimates of total strategic trade have been made on the basis of a combination of statistical deduction and projection. These estimates of totals are subject to a wide margin of error and should be regarded as minimal for the following reasons among others.

While it is probable that no other commodity accounts for so large a part of strategic trade as copper, reports of suspect transactions in all other embargoed commodities combined appear to be at least equal to copper in magnitude. Furthermore, the total value of such transactions is low by an amount equal to the total volume of all strategic trade which has not become known to the US Government Intelligence.

One estimate of the 1953 dollar volume of strategic trade amounts to \$229 million, of which \$93 million represented by shipments to Communist China and \$136 million to other bloc countries. Other estimates have run as high as \$350 million. In general, \$250 million may be taken as a rough conservative approximation.

Trends

East-west trade in embargoed commodities declined from 1953 to 1954. There is some evidence that this decline began in early 1954, probably in anticipation of the relaxation of western strategic trade controls. This trend was accentuated by the reduction of the number of embargoed items from 266 to 167 in August 1954 in consequence of which east-west trade in a large number of commodities (e.g., bare copper wire) was no longer subject to embargo.

The Transit Authorization Certificate (TAC) system and Transactions Controls which were introduced early in 1955 are expected to have a further deterrent effect on this trade and could also result in a shift of transshipment activity from European ports to others such as those of the Near East.

~~SECRET~~